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SUBJECT: SAO PAULO RACE COULD SET STAGE FOR 2010 PRESIDENTIAL  
CONTEST

REF: A. SAO PAULO 581;B. Sao Paulo 560

SENSITIVE BUT UNCLASSIFIED--PLEASE PROTECT ACCORDINGLY

¶1. (SBU) Summary: The October 2008 Sao Paulo mayoral race set the stage for Brazil's 2010 presidential elections, positioning Sao Paulo Governor Jose Serra (Social Democrats - PSDB, opposition) to face off against presidential chief of staff Dilma Rousseff (Workers Party - PT, government), president Lula's apparent favorite to succeed him. Serra's PSDB and the PT will now compete for the support of the PMDB, whose overall national showing (and lack of a national candidate) makes it an attractive coalition partner for any grouping that would govern Brazil. Longer term, the Sao Paulo mayoral race could reveal a trend toward the solidification of "middle class politics" in middle and upper income Brazilian cities. Voters proved immune to populist appeals from Workers Party (PT) candidate Marta Suplicy even while opinion surveys showed their continued positive impression of President Lula. Nonetheless, fallout from the global financial crisis could test President Lula's popularity in the coming months. Economic challenges might also benefit Serra, who could market himself to both the public and to business as an economic problem-solver. End Summary.

#### Sao Paulo Mayor's Race

¶2. (U) The 10/26 Sao Paulo mayoral runoff resulted in a large come-from-behind win for incumbent Gilberto Kassab (Democrats Party -DEM, opposition) and sets the stage for the 2010 presidential contest (Ref A).

Serra's Wager...

¶3. (SBU) Serra bet big on supporting Kassab's candidacy against the candidate from his own party (and stalking horse for Serra rival PSDB Governor of Minas Gerais Aécio Neves), Geraldo Alckmin. Kassab, who succeeded Serra as Mayor, is an unassuming figure not noted for his charisma or oratorical skill. He came from behind and won a narrow first round victory and then vanquished PT candidate Marta Suplicy in a 60-40 landslide in the runoff election. Serra's bet paid off and he has a strengthened third-party ally governing Brazil's largest city. Right after the election, Kassab, not content to rest on the laurels of his big victory, promised public works projects to win over voters in the outskirts of Sao Paulo who voted heavily for PT candidate Suplicy. The Serra-Kassab team could do much in two years to lock down greater Sao Paulo for Serra in the 2010 presidential race, including gaining more support for him in the now pro-PT blue collar suburbs of the city.

Losing Faction Wants To Return to Serra's Good Graces

¶4. (SBU) Serra's backing of a DEM candidate opposed by a member of his own party divided the PSDB, but Kassab's landslide confirmed Serra's judgment, and strengthened his hand. When asked if Serra would need to "reach out" to pro-Alckmin members of the PSDB in the wake of the elections, political analyst Rogerio Schmitt laughed and said that any reaching would likely come from the other direction. He related how, in a recent TV appearance with various PSDB reps, the off-camera talk between the Sao Paulo PSDB members revolved around how eager the Alckmin supporters were to get back into Serra's good graces.

#### Rivalry for PSDB Nomination Continues

¶5. (U) Despite the fact that Serra's man, Gilberto Kassab, beat PSDB rival Aecio Neves's candidate for Sao Paulo Mayor, Geraldo Alckmin, in the first round, the rivalry between the two governors continues. Should Serra stumble, Neves would be next in line for the PSDB presidential nomination. That said, both face challenges moving forward. Serra must negotiate an end to a two-month old Civil Police strike in Sao Paulo state that led to violent pre-election protests (Ref. B), and Neves has to contend with protests from unhappy teachers. Right now Serra holds the upper hand in the run-up to ¶2010. Some in the PSDB have begun to talk about a Serra-Neves "dream ticket" with Serra at the top of the ticket. Political gossip columnists have reported that former president Fernando Henrique Cardoso is urging Serra and Neves to run together.

#### A New Middle Class Politics? Maybe.

¶6. (U) Recent studies now classify 51 percent of Brazilians as

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"middle class," the result of strong economic growth and the GOB's emphasis on programs to aid the poor, most notably the Bolsa Familia. Sao Paulo voters chose a candidate who had proven to be a good city manager. Kassab did not promise system-change or redistribution of wealth, but rather cited his record as a mayor who could make incremental improvements in health, education, and public infrastructure. While Sao Paulo voters are more conservative than the average Brazilian due to the concentration of businesses in this world-class mega-city, their opting for a pragmatic candidate of incremental change is likely indicative of the more measured choices that an increasingly prosperous electorate could make, should economic growth continue. In the words of one Brazilian editorialist, Fernando Abrucio, the winners in the most recent elections were those who showed they knew how to serve the voters.

#### In Politics, the Local Outweighs Lula

¶7. (U) Observers have noted that the Sao Paulo mayoral race indicated that President Lula could not transfer his own sky-high approval rating (80 percent) to his chosen candidates. Marta Suplicy lost and, in the nearby working class suburb of Sao Bernardo, Lula's close ally, Luis Marinho, won only after a very expensive campaign that went to a second round. Suplicy's loss means that there is no emerging rival to Lula's current favorite for the 2010 PT nomination, his chief of staff Dilma Rousseff.

¶8. The PSDB and the PT will now compete for the support of the Brazilian Democratic Movement Party (PMDB, a non-ideological party in the government coalition) whose strong national showing in mayoral races (and lack of a national candidate) makes it an attractive coalition partner for any grouping that would govern Brazil.

#### Comment: Serra Ahead, and the Economy Could Help

¶9. (SBU) Though Serra looks the favorite for 2010, nothing is guaranteed. He faces a stubborn and unresolved police strike (Ref B) and other outside events could get in his way. That said, he remains the big bettor and the big winner from the 2008 Sao Paulo mayoral race. Moreover, Serra's candidacy comes at a time when global economic problems are starting to hit Brazil. If Team Lula fumbles during the ongoing financial crisis, look for Serra to market

himself as a leader who will use the state to help both citizens and business to get through hard times.

¶10. (U) This cable was coordinated/cleared by Embassy Brasilia.

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